

## **Section 221 of the FAA Modernization and Reform Act of 2012 Public-Private Partnerships (NextGen Financial Incentive Program)**

May 23, 2012

### **Stakeholder Outreach**

The FAA is conducting a public meeting on May 30, 2012, to seek initial input from interested stakeholders about program design and implementation of an equipage incentive program for commercial aircraft and general aviation to equip their aircraft with Next Generation Air Transportation (NextGen) capabilities, pursuant to FAA's authority in section 221 of the FAA Modernization and Reform Act of 2012 (the Act). The discussion will be an information sharing session; FAA is interested in engaging stakeholders in the process of developing an effective public-private partnership equipage incentive program (the Program).

This meeting will serve to gather initial input. Individuals may attend in person or participate via webcast. A subsequent meeting will be planned within 90 days of the May 30 meeting, after FAA has assessed stakeholder comments and feedback from this initial meeting and further developed its policies on how to implement the Program. Before implementation of any potential Program, the FAA would conduct the necessary reviews and provide opportunities for public notice and comment as appropriate.

### **Background**

The Act granted authority for the Secretary of Transportation to establish an equipage incentive program to equip aircraft in the interest of achieving NextGen capabilities. Under section 221, the Secretary may provide loan guarantees or other forms of federal credit assistance to operators of commercial and general aviation aircraft for up to 90 percent of the principal amount of loans funding such equipage. The incentive program is to be based on public-private partnership principles and is intended to leverage and maximize the use of private sector capital. The Secretary's authority to offer such credit assistance terminates five years after the Program commences. However, the provisions of the Federal Credit Reform Act require additional legislation before the program can be established.

Given the multiplicity of potential aircraft operators participating in the Program, the FAA is considering potential financing structures with and/or without intermediaries. If any financing structures involving intermediaries have the potential of meeting the program purpose;

intermediaries including private or public sector entities would extend funding in the form of loans or leases to the end-users for their acquisition of the NextGen equipage for their aircraft.

The goal for the Program is to encourage deployment of NextGen-capable aircraft in the National Airspace System sooner than would have occurred otherwise. Specifically, FAA would seek to increase the speed of adoption of base levels (equipage bundles) of NextGen equipage, which will accelerate delivery of NextGen benefits by reducing the time and expense of operations.

FAA is interested in determining whether the agency can develop a credit program that is attractive enough to accomplish these goals without receiving any appropriations from Congress to cover the subsidy and administrative costs of the program. The May meeting is therefore intended to share FAA's preliminary thinking and seek industry feedback about what features would be most critical to the various stakeholders and why, if the Program were to be created.

The FAA has received through the NextGen Advisory Committee (NAC) general recommendations on the topic of financial incentives for NextGen avionics equipage. However, the financial authority granted to FAA under the Act is new and therefore the agency believes that specific stakeholder input is necessary in order to optimize the design of an effective equipage incentive plan. Input from interested stakeholders will help inform the direction the FAA should take and raise issues that the agency may not have considered internally.

A *preliminary* list of questions and the equipage bundles FAA seeks comment on are provided below.

## Discussion Questions for Stakeholders:

### General:

- What do you perceive to be the biggest risk factors associated with participating in the Program?
- How might FAA help to mitigate these risks?
- **Credit Terms:** For the Program to be attractive, what expectations would you have concerning such key financing provisions as interest rate, length of loan repayment, collateral pledge, fees associated with the loan, etc.? What are commercial terms in today's market for obtaining financing for equipment of this type?
- **Form of Credit Assistance:** FAA is exploring the legal ability under section 221 of providing a range of lending instruments to borrowers in addition to loan guarantees to lenders. If loan guarantees do not achieve the program purpose, are there alternative financial structures that could be established for providing financing to aircraft operators?
- How would credit assistance promote NextGen equipage, and would it accelerate adoption or is the delay more related to FAA investments?
- How would other existing forms of assistance for air travel and NextGen installation work with the credit program?

### Air Carriers

- **Eligible Project Costs:** The program is legally limited to covering "communications, surveillance, navigation and other avionics as determined by the [USDOT] Secretary." How should that be defined? What costs of the avionics are typically financed as part of the investment? What is the estimated cost range of the required avionics per aircraft? Are there some NextGen capabilities (provided by avionics) that lend themselves better to the Program than others?
- **Relationship with Other Secured Creditors:** It is contemplated that the avionics, once installed, would stay with the aircraft as long as it remained in service. What kind of permissions would you need from owners/trustees of leased aircraft (both operating and capital leases) or from lenders to install NextGen avionics? Who would own and be responsible for paying for installation of NextGen avionics? What sort of lien on collateral could be granted to FAA as guarantor or lender?
- **NextGen Deployment:** To what extent would operational incentives for specific procedures and geographic locations influence your likelihood to participate in the Program in order to upgrade your fleet with the required NextGen capabilities?
- **Other:** What other information would be most useful to you in making your equipage decisions?

### **General Aviation/Corporate/Charter / Fractional Operators**

- What portion of the fleet currently is capable of RNP .3+RF and ADSB-Out? What portion of the fleet by 2020? What portion of the fleet that is not yet equipped would be worth installing avionics equipment given the flight control system currently on-board?
- Do you have suggestions on what kind of a private partner would be useful to GA in accessing federal financial incentives through the Program? How about a public partner, like a State Dept. of Transportation?

### **NextGen Avionics Suppliers & Aircraft Manufacturers**

- Can you provide rough estimates of the number of commercial and GA aircraft on the U.S. registry that will require avionics upgrades to reach RNP.3+RF and ADS-B Out? Do the bundles of NextGen technologies proposed by FAA make sense?
- Does equipment supporting certain NextGen capabilities exhibit especially large economies of scale in manufacturing?
- Are there economies of *scope* for supplying different NextGen capabilities (i.e., will certain bundles have wider applications than others)?

### **Potential Private Intermediaries/Lenders**

- As a lessor or lender, what credit terms do you think will be necessary in order to make the Program feasible?
- Which operator population(s) would you target in your program (commercial, general aviation or both)?

### **Airport Community**

- What role could or should airports, state, local or regional organizations have in establishing the Program?
- Would your airport be interested in participating in this program as a partner to help facilitate adoption of NextGen avionics and implementation of NextGen procedures in your geographic area?